

VZCZCXRO4700  
PP RUEHBZ RUEH DU RUEHJO RUEHMR RUEHRN  
DE RUEHSB #0137/01 0531339  
ZNR UUUUU ZZH  
P 221339Z FEB 07  
FM AMEMBASSY HARARE  
TO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY PRIORITY  
RUEHC/SECSTATE WASHDC PRIORITY 1150  
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY  
RUEHUJA/AMEMBASSY ABUJA 1480  
RUEHAR/AMEMBASSY ACCRA 1336  
RUEHDS/AMEMBASSY ADDIS ABABA 1484  
RUEHBY/AMEMBASSY CANBERRA 0745  
RUEHDK/AMEMBASSY DAKAR 1110  
RUEHKM/AMEMBASSY KAMPALA 1538  
RUEHNR/AMEMBASSY NAIROBI 3934  
RUEHFR/AMEMBASSY PARIS 1307  
RUEHRO/AMEMBASSY ROME 1963  
RUEHBS/USEU BRUSSELS  
RUEHGV/USMISSION GENEVA 0647  
RHEHAAA/NSC WASHDC  
RUCNDT/USMISSION USUN NEW YORK 1701  
RUEKJCS/JOINT STAFF WASHDC  
RUEHC/DEPT OF LABOR WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RHEFDIA/DIA WASHDC//DHO-7//  
RUCPDO/DEPT OF COMMERCE WASHDC  
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK//DOOC/ECMO/CC/DAO/DOB/DOI//  
RUEPGBA/CDR USEUCOM INTEL VAIHINGEN GE//ECJ23-CH/ECJ5M//

UNCLAS SECTION 01 OF 03 HARARE 000137

SIPDIS

SENSITIVE  
SIPDIS

AF/S FOR S. HILL  
NSC FOR SENIOR AFRICA DIRECTOR B. PITTMAN  
STATE PASS TO USAID FOR M. COPSON AND E. LOKEN  
TREASURY FOR J. RALYEA AND T. RAND  
COMMERCE FOR BECKY ERKUL  
ADDIS ABABA FOR USAU  
ADDIS ABABA FOR ACSS

E.O. 12958: N/A  
TAGS: [EAGR](#) [EFIN](#) [ETRD](#) [ECON](#) [PGOV](#) [ZI](#)  
SUBJECT: A TENUOUS RECOVERY FOR ZIMBABWE TOBACCO

REF: HARARE 01492

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Summary  
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1. (SBU) Embassy interlocutors in the tobacco sector told us Zimbabwe would likely produce 70-80 million kg of tobacco this season, up from last year's all time low of 55 million kg. They attributed the improvement to massive (and unsustainable) off-budget subsidies, favorable growing conditions, fewer disruptions to the remaining highly productive white commercial tobacco growers, and increased "contract" farming for large multinational tobacco corporations. Our interlocutors confirmed that the government will open Harare's tobacco auction floors six weeks early hoping to draw in foreign exchange from the improved crop. However, without a steep currency devaluation, growers were unlikely to bring their crop to market early. End Summary

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Subsidies, Rainfall, Stability Lead to Production Increase  
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2. (SBU) Embassy interlocutors in the tobacco sector told us that Zimbabwe would likely produce 70-80 million kg of tobacco this year, up from last year's smallest crop since 1948 of 55 million kg. Andrew Ferreira, Vice President of

the Zimbabwe Tobacco Association, said on February 9 that tobacco seed sales were up 20 percent, area planted to irrigated tobacco up 30 percent, and dry land planting up 20 percent this season.

¶3. (SBU) Ferreira attributed the increases to massive government subsidies including top-up bonuses on sales, foreign exchange retention incentives, and deeply discounted loans. Lodwin Gatsi, Operations Executive of Tobacco Sales Floor Limited, noted that the RBZ's Agricultural Sector Enhancement Facility (ASPEF) loaned funds at 50 percent interest. This created a huge incentive for tobacco growers to borrow, given that inflation was well over 2000 percent.

¶4. (SBU) Ferreira, Gatsi and other interlocutors also attributed the increased production to favorable rainfall. They noted that the rainfall this year had been uneven across the country and less than ideal for maize, which would likely see another bad harvest. However, the rainfall had been very favorable for tobacco. The result was not just increased production but also improved quality. In addition, the irrigated crop, which yields nearly double the tobacco leaf of dry land crop, had benefited from ample water collected during last year's abundant rains.

¶5. (SBU) Our interlocutors also pointed to greater stability in the sector as a factor in the production increase. According to Ferreira, of approximately 400 white commercial farmers still in business, about 158 grew tobacco this year. Gatsi said he knew of very few white tobacco farmers who had received eviction notices since entry into force of the

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Gazetted Land Act in December 2006 (reftel). Andrew Englebrecht of U.S.-owned Zimbabwe Leaf Tobacco (ZLT) said that of the 75 commercial growers contracted by ZLT, two-thirds were white farmers none of whom had had a serious disruption this season.

¶6. (SBU) Our interlocutors claimed that multinational tobacco corporations were renewing their interest in Zimbabwe. Gatsi said the biggest tobacco companies were once again "pouring money" into Zimbabwe despite insecure land tenure. Englebrecht confirmed that ZLT and the other major U.S.-owned company, AllianceOne, had decided to maintain their investment in Zimbabwe in the hope that the worst of farm seizures and disruptions was over.

¶7. (SBU) By contracting directly with big tobacco growers (i.e. those with over 15 hectares), our interlocutors said the big multinational tobacco corporations had improved access to inputs and expanded the area under cultivation. A minimum crop of 40 million kg would be produced under these contracts this season, more than half the total. Englebrecht said that although the multinational tobacco companies had chiefly invested in big growers, they had also contracted with small, new farmers in a successful effort to transfer expertise and thereby hopefully increase the future crop size.

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Unprecedented Early Opening of the Tobacco Auction Floors  
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¶8. (SBU) Gatsi said Harare's three tobacco auction floors would open on March 14, about six weeks earlier than usual, driven by the RBZ's acute need for foreign exchange and concern that the cured crop would mold if held too long in the sector's deteriorating barns. However, Englebrecht said he doubted the growers would deliver the crop early absent a significant currency devaluation along with other incentives. Gatsi said the RBZ was making concessions already, noting that it had agreed to allow growers to hold 15 percent of their forex earnings in Foreign Currency Accounts (FCA) this year. Last year, the RBZ had promised the growers a 15 percent "entitlement" to their forex, which it had then

refused to honor.

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Comment  
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¶9. (SBU) Although still less than half of Zimbabwe's peak tobacco production, the larger crop this year after six consecutive years of decline is a welcome bit of good news for Zimbabwe's struggling economy. However, it comes at the price of large and unsustainable government subsidies that further distort market incentives and investment patterns. In the short run, the improved crop may provide a bit more foreign exchange for the government. In the long run, only a comprehensive package of reforms, including better governance and renewed respect for private property, can restore investor confidence and begin turning the economy around and

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with it the tobacco sector.  
SCHULTZ